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WILLIAM T FUJIOKA
Chief Executive Officer

County of Los Angeles CHIEF EXECUTIVE OFFICE

Kenneth Hahn Hall of Administration
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REVISED

Total deferred payments
for Health and Social
Services on page 2
changed to \$1.297 billion

January 26, 2009

To: Supervisor Don Knabe, Chairman
Supervisor Gloria Molina
Supervisor Mark Ridley-Thomas
Supervisor Zev Yaroslavsky
Supervisor Michael D. Antonovich

From: William T Fujioka
Chief Executive Officer

Board of Supervisors
GLORIA MOLINA
First District

MARK RIDLEY-THOMAS
Second District

ZEV YAROSLAVSKY
Third District

DON KNABE
Fourth District

MICHAEL D. ANTONOVICH
Fifth District

RESPONSE TO BOARD ORDER OF JANUARY 13, 2009 TO OPPOSE ANY PROPOSAL THAT DELAYS PAYMENTS TO THE COUNTY AND FOR THE CHIEF EXECUTIVE OFFICER TO REPORT BACK IN ONE WEEK ON ANY POTENTIAL IMPACT OF THIS PROPOSAL TO DELAY PAYMENTS TO COUNTIES FOR HEALTH AND HUMAN SERVICES (ITEM NO. 35-B, AGENDA OF JANUARY 27, 2009)

On January 13, 2009, your Board approved a motion by Supervisor Knabe to oppose any proposal that delays payments to the County, and for the Chief Executive Officer to report back in one week on any potential impact of this proposal to delay payments to counties for health and human services.

As a result of the State's continuing fiscal deterioration, the Governor has proposed to defer payments for up to seven months for various County administered programs, and the State Controller has announced that certain February payments to counties would be delayed for at least 30 days due to the State's cash-flow shortfall. It is important to note that the Governor's proposal requires a two-thirds vote by the Legislature, while the State Controller has the authority to stop making payments. If enacted, the two proposals would be effective in February.

We estimate the impact of the Governor's proposed payment deferrals to be approximately \$1.423 billion, and the impact from the State Controller's February payment delay to be \$105.6 million. The County has a limited ability to handle the deferral on a very short-term basis. An extended term will negatively impact the County's fiscal viability.

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Governor's Proposed Payment Deferrals

The Governor's proposal would defer payments for up to seven months to counties for most health and human services programs, and payments for gasoline sales tax (Proposition 42) and gasoline excise tax revenues. Reimbursement of State mandate payments would be delayed for three months. The Governor's proposed deferrals will result in the delay of approximately \$1.423 billion in payments to the County.

Health and Social Services Programs

The Governor proposes to defer payments to counties for most health and social services programs, with the exception of In-Home Supportive Services (IHSS) provider payments and SSI/SSP, for up to a seven month period. The payment deferral will be from February through August, with the expectation that the State will repay counties by September 30, 2009. The impact of the health and social services deferred payments by programs is:

Program	Description	Deferral Impact
Social Services Payments, except SSI/SSP and IHSS	Defers the February through August advance payments to counties for social services until September.	\$ 632.4 million
County Administration - Medi-Cal Program	Defers two quarterly payments to counties.	\$ 104.2 million
Medi-Cal Program Services	Defers payments to counties for February through August until September.	\$ 250.6 million
Early and Periodic Screening, Diagnosis and Treatment (EPSDT)	Defers two quarterly payments to counties.	\$ 69.0 million
Public Health Programs	Defers payments to counties for February through August until September.	\$ 241.4 million*
Total Deferred Payments for Health and Social Services		\$ 1.297 billion

* Includes \$40.1 million in prior year payments that the Department of Public Health anticipates receiving during the deferral period.

If the Governor's payment deferrals are enacted and the County is not able to find a viable way to mitigate the problem, the proposal would result in severe consequences to direct operations, contracts, and services to the County's most vulnerable residents. In its current form, the Governor's proposal would affect the full spectrum of the County's responsibility for safety net programs and could result in:

- Delayed reimbursement to the County for inpatient and outpatient medical services provided to Medi-Cal patients and delayed Medi-Cal managed care capitation payments;
- Delayed reimbursement to counties for: a) substance abuse treatment services and HIV/AIDS treatment, prevention, and laboratory services provided by contract agencies; b) treatment and therapy services to children provided by private Medi-Cal providers; c) immunization services provided by Department of Public Health (DPH) and contract agencies; d) tobacco control activities provided by DPH; and e) tuberculosis treatment services provided by DPH;
- Delayed reimbursement for Early and Periodic Screening, Diagnosis and Treatment mental health services including outpatient services, assessments, case planning, provided by contractors and the Department of Mental Health directly operated programs to Medi-Cal beneficiaries under the age of 21;
- Delayed reimbursement for inpatient and residential mental health treatment and rehabilitation services;
- Delayed reimbursement for contractors that provide direct services which strengthen and support families, support adoptions, kinship, and relative care, and help foster youth successfully emancipate and become self-sufficient;
- Potential impact on the County's ability to continue the Title IV-E Waiver to the extent the loss of services result in increased detention of children and placements in out-of-home care;
- Potential delay of reimbursement for CalWORKs cash assistance for approximately 145,000 poor families. These funds are primarily used for rent and would likely result in an increase in homelessness. The number of CalWORKs homeless families has increased by 26.3 percent from 5,824 families in June 2008 to 7,356 families in November 2008;
- Delayed reimbursement of cash assistance to 5,300 elderly and disabled individuals who participate in the Cash Assistance Program for Immigrants;
- Delayed reimbursement for most public services which would result in decrease access to CalWORKs, Medi-Cal, and food stamps programs; and
- Delayed reimbursements to CalWORKs Stage One Child Care providers.

We are working with departments to get more detail information and will report back as more information becomes available.

Proposition 42 and Gasoline Excise Tax Revenues

The Governor proposes to loan \$750 million from the Highway Users Tax Account (HUTA) to the State General Fund by postponing, from January through July 2009, the monthly transfer of gasoline excise tax revenues to cities and counties until September and October. The Governor also proposes to defer the June fourth quarter payment of Proposition 42 gasoline sales tax funds to cities and counties until October. The impact of the deferred payments by program is:

Program	Description	Deferral Impact
HUTA-County Road Fund	Defers January through July monthly payments to September and October.	\$ 66.4 million
Proposition 42 Funds	Defers the fourth quarter payment from June to October.	\$ 13.0 million
Total Deferred Payments		\$ 79.4 million

According to the Department of Public Works, these funds are used for the operation, maintenance, and rehabilitation of transportation infrastructure in unincorporated County areas, and if this proposal is approved, the Department will be forced to delay at least fifty-three (53) projects totaling \$52.2 million. Only high priority safety projects such as bridge seismic retrofits will be awarded until the gasoline excise tax and Proposition 42 funds are fully repaid.

This includes projects to resurface and reconstruct streets and roads that are in poor to very poor condition, landscaping projects of significant community interest, projects that are critical to the opening of key public facilities and the replacement of infrastructure destroyed during the recent wildfires.

State Mandates Reimbursement

The Governor proposes to defer \$142 million Statewide in mandate reimbursements to local governments from August to October. Some of these mandates include AB 3632 mental health services to handicapped students, absentee ballot, and sexually violent predators claim reimbursements. If this proposal is enacted, the estimated impact to the County, as provided by the Auditor-Controller, would be:

Program	Description	Deferral Impact
State Mandates	Defers payments for mandate reimbursements from August to October.	\$ 46.3 million

OVERALL PAYMENT DEFERRALS	\$1.423 billion
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State Controller February Payment Delay

In addition to the Governor's proposed payment deferrals, on January 16, 2009, State Controller John Chiang announced that the State is facing a \$346 million shortfall by the end of February, which will force him to delay payments for at least 30 days to all programs not protected by the State Constitution, Federal law, or court rulings as having first claim to available State General Fund cash.

Absent a State Budget solution, the State Controller announced his intent to implement payment delays for: 1) claims by businesses for services and products they provide to the State; 2) assistance to more than one million aged, blind, and disabled Californians; 3) disbursements to State agencies that fund critical public services, including health and welfare services provided by counties; and 4) tax refunds for individuals and businesses.

Based on the limited information available, and in consultation with County departments, the estimated impact from February payment delay is:

Program	February Payment Delay Impact
CalWORKs Grants, Stage One Child Care, Employment and Eligibility Services	\$ 34.7 million
County Administration - Social Services Programs	\$ 38.9 million
County Administration – Medi-Cal Program	No impact
Funding for Mental Health Treatment and Rehabilitation Programs	\$ 25.7 million
Department of Alcohol and Drug Abuse – funding for counties to provide prevention, treatment, and recovery services)	\$ 6.3 million
TOTAL	\$ 105.6 million

Current County Financial Status

The latest budget status report shows a projected County General Fund balance at year-end of \$64.2 million, which is \$35.8 million less than the \$100 million that we count on to help balance next year's budget. This does not include what may be disappointing results on sales tax revenue from the holiday season which should be available in February. It also does not include potential impacts from the Governor's latest budget proposals which would cost the County a projected \$50.5 million in the current fiscal year and \$268.6 million in Fiscal Year (FY) 2009-10. For FY 2009-10, we currently project a County shortfall of \$173 million, which has required us to ask departments to identify 5 percent budget curtailments, and again, does not include the impact of potential State cuts.

Ability to Sustain Payment Delays and Planned Deferrals

We have consulted with the Auditor-Controller and the Treasurer and Tax Collector to evaluate the County's ability to sustain planned month-to-month payment delays and proposed deferrals. Given our current cash position, and assuming no other serious interruptions to cash flow in the coming months, the 30-day February payment delay of \$105.6 million can be handled without serious consequence, although it will further strain the County's cash reserves. However, the duration of these month-to-month delays and the timeliness of a State catch-up on repayment is unknown, which is a serious concern.

While the County may be able to fund the State's financial obligation for one month, the County cannot sustain the \$1.423 billion in payment deferrals from the Governor's proposal. As it stands now, the County's cash flow is negatively impacted by hundreds of millions of dollars owed the County for operating health, mental health, and social service programs while waiting several months for State reimbursement. Further delays would create a liquidity crisis requiring severe cutbacks.

We will communicate the impact of these payment deferrals and delays to the Los Angeles County Delegation, the Governor, and the Legislative Leadership.

WTF:DL/GK
ML:MR:IGA:er

c: Executive Officer, Board of Supervisors
County Counsel
All Department Heads



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January 30, 2009

To: Supervisor Don Knabe, Chairman
Supervisor Gloria Molina
Supervisor Mark Ridley-Thomas
Supervisor Zev Yaroslavsky
Supervisor Michael D. Antonovich

From: William T Fujioka
Chief Executive Officer

A handwritten signature in black ink, appearing to be "W. T. Fujioka", is written over the printed name and title.

STATUS OF STATE BUDGET DISCUSSIONS, PROPOSALS TO DEFER OR DELAY PAYMENTS TO THE COUNTY AND RECOMMENDED MITIGATIONS (AGENDA ITEM S-1, MEETING OF FEBRUARY 3, 2009)

State Budget Discussions

As in prior weeks, details about budget negotiations, their progress, points of agreement and unresolved issues were sketchy and difficult to obtain. The Governor and the Legislative Leadership (Big 5) met virtually every day last week, and, on at least one occasion, met multiple times on the same day. The Sacramento advocates indicate that there are rumors that the Legislative Leaders are working toward a "handshake deal" by the weekend, and that the Budget will be adopted next week.

Information about the status of State Budget negotiations obtained by the Sacramento advocates, County departmental representatives, associations and other sources includes the following:

- The Big 5 are still working toward resolution of the combined FY 2008-09 and FY 2009-10 shortfall of \$40 billion.
- Some sources indicate that there is a new revenue package. The sales tax would be increased by one-half cent which would produce approximately \$4 billion per year. An increase in the Vehicle License Fee to 2 percent, which would yield an estimated \$6 billion annually, also seems to be part of the discussions.

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- The remaining unresolved issues include proposed changes to the California Environmental Quality Act and modifications to existing California labor law, such as the definition of the work day, which are part of the Governor's economic stimulus plan.
- The Republican Leadership demand for a "hard" spending cap continues to be a contentious issue. There is strong opposition by counties, service provider and recipient groups, labor, education, and other key interest groups.

Administration Proposal to Defer State Payments to Counties

Last evening, information was obtained from the Administration that the proposal to defer payments to counties may be modified. Administration staff is now suggesting that the total deferred amount is estimated to be \$1.8 billion, and that not all of the programs included in the original proposal will be affected. As originally proposed in the January 12, 2009 statutory language released by the Administration, a total of \$3.5 billion was estimated by the California State Association of Counties (CSAC) to be deferred over the seven month period from February 2009 to August 2009. (Per our report of January 26, 2009, the estimated impact of that proposal on the County would be \$1.423 billion.)

The Administration stated that they will not be able to provide precise estimates of the modified \$1.8 billion deferral, specific programs affected, or the exact length of the deferral until after a Budget agreement is reached. The details of a Budget agreement are necessary for the Department of Finance to prepare a cash flow analysis, and thereby determine the size and length of the deferral and the programs affected.

State Controller's February Payment Delay

On January 26, 2009, we reported that the State Controller announced that due to the State shortfall, it was necessary for him to delay payments for at least 30 days to all programs not protected by the State Constitution, Federal law or court rulings as having first claim to available State General Fund cash. We estimated the County impact to be \$105.6 million. As of this writing, the Controller has not issued any further statements. Next week the Sacramento advocates will contact the State Controller's Office to determine whether he will delay payments.

County Advocacy Mitigation Efforts

The Chief Executive Officer has sent letters to the County delegation describing the potential impacts on the County of the Governor's January Proposed Budget, the seven-month deferrals, and the State Controller's February delay in payments to the County.

Recently, the Directors and staff of the Departments of Public Social Services and Children and Family Services, CEO staff, and the County's legislative advocates met with some members of the County Delegation and other key Legislative offices as part of the County's advocacy efforts to inform the delegation about the impact of the Governor's Proposed Budget and deferrals, and the State Controller's decision to delay payments.

The Sacramento advocates will continue to strongly oppose the proposed reductions and deferrals. Our advocacy is closely coordinated with CSAC, Urban Counties Caucus, and a broad coalition of allied interest groups.

We will continue to keep your Board informed.

WTF:GK
ML/DW:lm

c: Executive Officer, Board of Supervisors
County Counsel